

After a difficult year, Xcel Energy is **focusing on fundamentals** as it looks to the future. Strong core businesses, a commitment to shareholder value and a continuing dedication to customers, community and the environment form the foundation of our business as we move forward with renewed determination.



COMPANY DESCRIPTION

XCEL ENERGY INC.

Xcel Energy Inc. is a major U.S. electric and natural gas company, with annual revenues of \$10 billion. Based in Minneapolis, Minn., Xcel Energy operates in 12 Western and Midwestern states. The company provides a comprehensive portfolio of energy-related products and services to 3.2 million electricity customers and 1.7 million natural gas customers. In terms of customers, Xcel Energy is the fourth-largest combination electric and natural gas company in the nation.

FINANCIAL HIGHLIGHTS

	<i>Year Ended Dec. 31</i>	
	<i>2002</i>	<i>2001</i>
Earnings per common share – diluted	\$ (5.82)	\$ 2.30
Discontinued operations	\$ (1.46)	\$ 0.14
Earnings per common share – diluted before discontinued operations	\$ (4.36)	\$ 2.16
Dividends annualized	\$ 0.75	\$ 1.50
Stock price (close)	\$ 11.00	\$ 27.74
Assets (millions)	\$27,258	\$28,754
Book value per common share	\$ 11.70	\$ 17.91

Some of the sections in this annual report, including the letter to shareholders on page 3, contain forward-looking statements. For a discussion of factors that could affect operating results, please see the Management's Discussion and Analysis on page 16.

TABLE of CONTENTS

LETTER TO SHAREHOLDERS	PAGE 3
FOCUSING ON FUNDAMENTALS	PAGE 6



XCEL ENERGY'S ALLEN S. KING PLANT NEAR BAYPORT, MINN.,
IS ONE OF THE COMPANY'S MANY VALUABLE ASSETS.



WAYNE H. BRUNETTI, CHAIRMAN, PRESIDENT AND CEO

dear shareholders

2002 was a very difficult year for Xcel Energy, its shareholders and its employees. In addition to dealing with unprecedented challenges shared by the entire energy industry, we focused significant effort on saving our investment in NRG Energy when the independent power producer industry collapsed. The NRG situation, combined with industry events, had a major impact on Xcel Energy's stock price, credit ratings, earnings and dividend – all of which greatly affected you.

Because one of our top priorities has always been to build shareholder value, we especially regret the impact of the year's events on you, and want you to know that we are working tirelessly to improve the situation. In the meantime, it's important to carefully examine 2002 and then share our plan going forward.

At the beginning of the year, Xcel Energy was off to a cautious but optimistic start. We'd accomplished the majority of our 2001 goals and had ranked among *Fortune* magazine's most-admired electric and natural gas utilities. There certainly were challenges on the horizon: economic growth was slowing, Enron had declared bankruptcy, wholesale electric prices were declining and credit rating agencies were raising concerns about the business models of independent power producers. But we had a solid plan and believed we could manage those issues and deliver good results.

As we told you in last year's annual report, our plan focused on increasing the value of our existing assets, while preparing for future opportunities. We refined that plan as time went on to concentrate on three components, each addressing significant aspects of Xcel Energy's profitability. They included our regulated utility services, our energy trading and marketing operations and NRG Energy.

Our objectives were to:

- continue to improve the performance of our regulated operations;
- reduce our trading and marketing activities to reflect declining profit opportunities in that sector; and
- preserve the value of our investment in our subsidiary NRG Energy.

Let's look at results in each area.

Xcel Energy's core electric and natural gas operations turned in a solid performance in 2002, despite a slowing economy and higher interest rates. As we explain in more detail later, utility net income was almost as strong as it was in 2001.

Going into 2002, we knew that our electric and natural gas commodity trading group would not be able to match the profitability it achieved in 2001 – primarily because wholesale electric prices were dropping. In addition, the fall of Enron and

increasing credit requirements linked to energy trading lowered trading volumes throughout the industry. In 2002, Xcel Energy's gross margin from short-term wholesale and commodity trading was \$41 million, down from \$264 million in 2001. The 2002 trading volumes and profitability results are representative of what we expect to see in the next few years.

Unfortunately, we were not able to realize our third objective for 2002: preserving the value of NRG. As you recall, NRG was created in 1989 to take advantage – both nationally and internationally – of a newly competitive wholesale energy market. NRG's strategy was to purchase, build and operate power plants in selected geographic markets in the United States and around the world.

The strategy proved successful for several years. NRG grew rapidly as wholesale energy prices rose. By the end of 2001, NRG was the third-largest independent power producer in the world, with net income of \$265 million.

Much of NRG's expansion was funded with debt, which was a business model that the financial community initially supported. With falling electricity prices, however, came heightened concern about the level of debt that companies like NRG were carrying. As Xcel Energy and NRG management met with bond rating agencies, we recognized that NRG's ratings might be downgraded below investment grade unless NRG changed its business model. An NRG bond rating below investment grade would significantly diminish the value of our investment in NRG.

After soliciting advice from respected financial advisors, we decided that the best strategy for preventing a downgrade was to:

- acquire the publicly traded shares of NRG;
- dramatically cut NRG's growth;
- sell less-profitable assets to reduce debt; and
- reduce NRG's costs.

As 2002 unfolded and we began to implement our plan, circumstances arose that were far beyond reasonable expectation. Our effort to acquire the outstanding shares of NRG was delayed for several months. Allegations about unethical energy marketing and trading practices were leveled against several utilities, rocking the industry and driving utility stock prices downward. The normal summer rise in wholesale energy prices never materialized, resulting in the lowest wholesale power prices in years. Rating agencies continued to downgrade the energy industry. The market value of power plants owned by independent power producers such as NRG fell in the United States and around the world.

Despite our best efforts, NRG was downgraded to below investment grade on July 29. The downgrade triggered a series of cash collateral calls on NRG and resulted in a sharp drop in

our stock price, a decline in the bond ratings of Xcel Energy and its utility subsidiaries and reduced access to capital.

NRG was not able to meet the cash requirements triggered by the downgrade, and it soon became clear that NRG could not survive without a dramatic restructuring of its debt. Xcel Energy began discussions with NRG's creditors and, as part of the restructuring process, decided that Xcel Energy would no longer retain an ownership stake in NRG.

In March 2003, we reached an agreement in principle with holders of most of NRG's long-term notes and the steering committee representing NRG's bank lenders. The agreement is subject to certain conditions and calls for Xcel Energy to make payments to NRG over 13 months, totaling up to \$752 million, for the benefit of NRG's creditors in partial consideration for their waiver of any existing and potential claims against Xcel Energy.

We believe the agreement eliminates the risks and uncertainty surrounding NRG's current restructuring effort and contains terms that greatly reduce our exposure to any material legal claims. We also feel the agreement reduces the risk of a credit downgrade and paves the way for a potential upgrade of our credit ratings. Finally, our stock price has been negatively affected by the uncertainty surrounding NRG. We believe this agreement should eliminate that uncertainty.

Another issue that affected shareholders last year was the dividend. As access to capital markets became limited, Xcel Energy took a hard look at its own financing requirements. In the past, the cash generated by our utilities was not sufficient to fund both the dividend requirement and the utilities' capital expenditure program. That required us to issue debt or equity to finance our growth.

Given those circumstances – and after a great deal of analysis and deliberation – Xcel Energy's board of directors made the very difficult decision in September to cut the dividend rate in half. By reducing the dividend, the company is able to retain an additional \$300 million per year in cash. The additional cash enables us to better match the cash needed to fund the growth of our core businesses, without being forced to issue additional stock at low prices or raise debt at high cost. Although the decision was painful, we continue to strongly believe that in the long run it is in the best interest of shareholders.

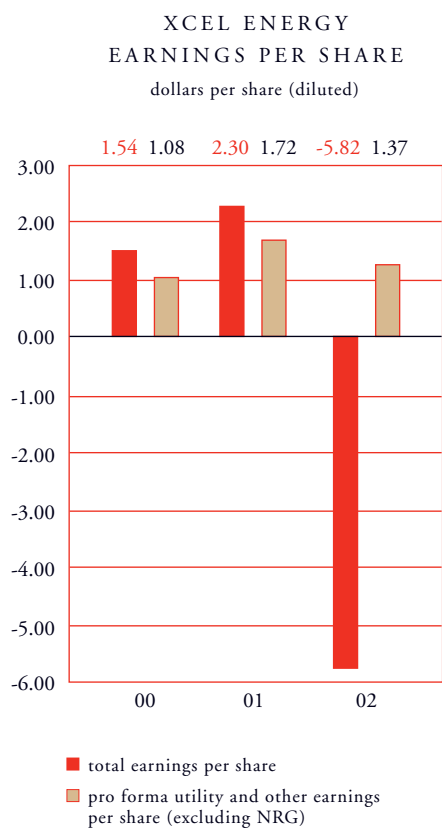
Obviously, the year's events and the NRG situation also affected financial results. In 2002, Xcel Energy's total earnings – including NRG results and impacts – were a net loss of \$2.2 billion, or \$5.82 per share, compared with net earnings of \$791 million, or \$2.30 per share, in 2001. Xcel Energy's pro forma earnings – excluding NRG's operating results and other NRG impacts – were \$591 million, or \$1.37 per share, compared with \$591 million, or \$1.72 per share, for 2001.

Xcel Energy's earnings in 2002 consisted of:

- utility net income of \$606 million, or \$1.59 per share, compared with \$655 million, or \$1.90 per share, for the year 2001;
- other subsidiary net losses and holding company costs of \$0.22 per share, compared with \$0.18 per share for the year 2001;
- an NRG net loss of \$3.5 billion, or \$9.04 per share, compared with net income of \$200 million, or \$0.58 per share, in 2001 (including a pretax loss of \$2.9 billion, or about \$7.09 per share, for asset impairments and disposal losses); and
- a tax benefit related to the investment of NRG of \$706 million, or \$1.85 per share, related to Xcel Energy's investment in NRG.

Utility earnings were reduced by \$0.34 per share in 2002, compared with 2001, due to the impacts of less favorable market conditions on electric wholesale and trading sales.

Going forward, Xcel Energy's earnings will come from our core utility operations, which have consistently performed well. Despite all that has happened over the past year, those businesses



remain strong, with approximately \$15 billion of assets, healthy service territories and knowledgeable, hard-working and dedicated employees.

We manage our core businesses by taking a disciplined and standardized approach to controlling costs, while never losing sight of quality or customer service. As always, our goal is to get the most out of our assets by operating each component of the energy process well – from buying fuel for power plants to delivering the final product to customers. In 2002, employee expertise – along with an innovative management approach and the aid of new technology – resulted in significant core business accomplishments.

Among many other achievements, Xcel Energy employees:

- negotiated contracts that reduce coal costs by more than \$20 million through 2004 and rail costs by approximately \$34 million for 2004 and 2005, while benefiting suppliers through long-term agreements;
- achieved excellent generating results from our Prairie Island and Monticello nuclear plants, while maintaining the highest safety rating given by the Nuclear Regulatory Commission;
- set operating records at our Comanche and Sherco coal-fired plants, while improving worker safety, and achieved top-quartile performance across our fleet of generating plants in terms of forced outage rates;
- completed a project to convert two of four units at our Black Dog power plant from coal to natural gas combined-cycle technology, which will reduce emissions while boosting electric output by more than 100 megawatts;
- helped customers across our service territory conserve 300 gigawatt-hours of electricity, the amount of energy used by 40,000 homes in a year; and
- received conditional operating approval for TRANSLink Transmission Co., our proposed independent transmission company, from the Federal Energy Regulatory Commission, and established an interim start-up company.

Xcel Energy's ability and willingness to protect the environment is another example of the fundamental strength of our core businesses. In 2002, our Denver metro emissions reduction project, which is a voluntary effort to reduce air emissions at three coal-fired plants, became fully operational. The program is reducing sulfur dioxide emissions by 18,000 tons a year and nitrogen oxide emissions by 2,200 tons annually. In Minnesota, we've proposed a similar plan to convert two coal-fired plants to natural gas and install advanced pollution-control equipment at a third plant. While significantly reducing emissions, the program also will increase the plants' generating capacities.

Just as important as environmental protection is our responsibility to anticipate and meet customers' energy needs. In late 2002, Xcel Energy filed a resource plan in Minnesota that examines the costs, benefits and risks associated with various power supply sources. The plan included our recommendation to continue operating the Monticello and Prairie Island nuclear plants, which is the best option among several alternatives from cost, reliability and emissions perspectives.

Xcel Energy also opened the issue to discussion by key stakeholders, including the Minnesota Legislature, which in 1994 imposed a limit on used nuclear fuel storage at the plants. That limit will force the shutdown of Prairie Island in 2007 and Monticello in 2010 if additional storage is not approved. Xcel Energy is seeking legislative action to keep nuclear power part of our energy portfolio.

A strong commitment to customers and the environment is a reflection of Xcel Energy's corporate integrity. Equally important is our financial integrity, which was reaffirmed in 2002 when we asked Deloitte & Touche to re-audit our 2000 and 2001 financial statements to remove any doubt about the results of our original audits, which were conducted by Arthur Andersen. No adjustments or restatements were necessary to our previously reported results.

Xcel Energy will face the future in the same honest and straightforward manner. We have a number of strategic priorities, including bringing final resolution to the NRG restructuring and improving our financial strength and stock valuation. We also will pursue top-quartile performance in all areas of our operations and high levels of excellence in all aspects of governance and compliance. Finally, we will continue to make environmental stewardship good business, and we will ensure that Xcel Energy's business model successfully positions us for the challenges facing our industry.

We can look forward to a brighter future because our core businesses are strong and growing. Our employees are talented and hard working. And our commitment to customers, communities and the environment never wavers. As always, Xcel Energy will work tirelessly to earn your trust and support.

Sincerely,



Wayne H. Brunetti
Chairman, President and CEO

focusing on fundamentals

As it moves forward after a difficult year, Xcel Energy is focusing on the fundamentals that are essential to long-term success. First and foremost, the company will rely on its electric and natural gas businesses, which are strong and growing. With that solid foundation, Xcel Energy will be able to once again build shareholder value, another important fundamental. Finally, the company will achieve its goals by remaining committed to environmental protection, customer satisfaction and the economic strength and social vitality of the communities in which it operates.

THE FUNDAMENTALS OF XCEL ENERGY'S BUSINESS ARE REPRESENTED BY (CLOCKWISE FROM UPPER LEFT): EMPLOYEE KEN CHRISTENSEN, A LEAD FITTER IN GRAND JUNCTION, COLO.; A COAL-UNLOADING SILO AT THE ALLEN S. KING PLANT NEAR BAYPORT, MINN.; EMPLOYEE JOE MASSEY, A JOURNEYMAN LINEMAN IN GRAND JUNCTION, COLO.; AND EMPLOYEE PAUL BIXBY, AN ASSISTANT PLANT EQUIPMENT OPERATOR AT THE ALLEN S. KING PLANT.



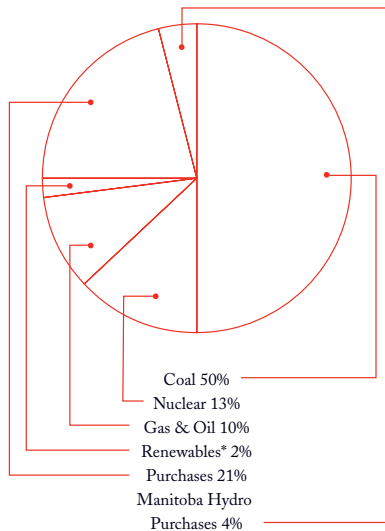


JOHN MINNICK IS AN XCEL ENERGY JOURNEYMAN
LINEMAN IN GRAND JUNCTION, COLO.

operating our core businesses

Xcel Energy employees understand the energy business as well as anyone. They know how to buy fuel efficiently, run power plants well, deliver natural gas and electricity reliably and satisfy customers. But employee expertise isn't the only factor operating in favor of Xcel Energy's core businesses. Their service territories are healthy and growing, with 66,000 new customers, for example, added in 2002. The core businesses also include a balanced portfolio of energy sources and valuable assets such as power plants, substations and transmission lines. Each attribute contributes to the strength and flexibility of Xcel Energy, enabling it to face the challenges of the future.

XCEL ENERGY PORTFOLIO
of ENERGY SOURCES



*renewables include wind, hydro and biomass



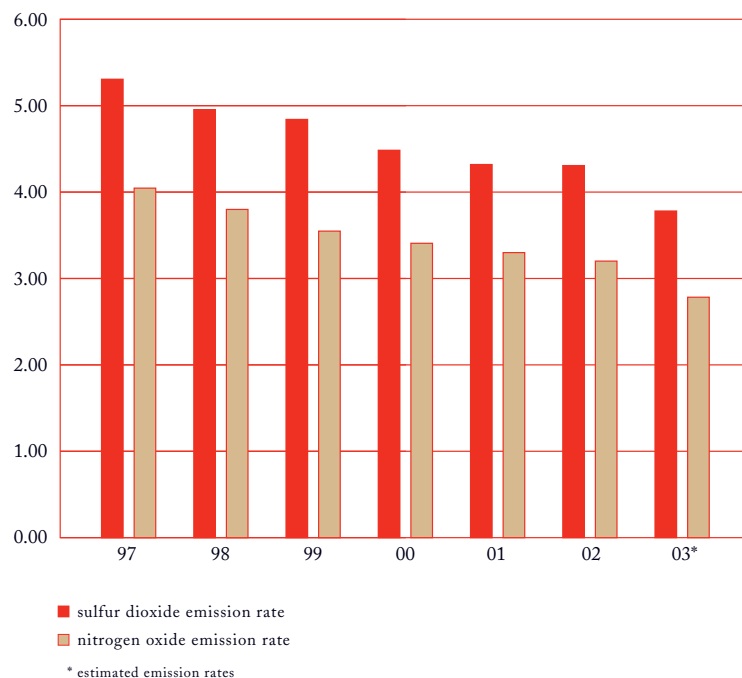
DOUG JONES IS AN XCEL ENERGY YARD EQUIPMENT OPERATOR AT
THE ALLEN S. KING PLANT NEAR BAYPORT, MINN.

building shareholder value

Among Xcel Energy’s top priorities for 2003 are to regain financial strength and begin to grow shareholder value. The first step in achieving those goals is to successfully resolve the NRG situation. As always, Xcel Energy will operate its core businesses by carefully managing costs. That will enable the company to achieve stable cash flow and earnings growth. Although earnings growth will be slower than in the past, it should eventually result in dividend growth. In the process, the company will work to increase its credit ratings, which will give it easier access to lower-cost sources of capital. As Xcel Energy delivers on these objectives, the company’s stock price should increase and it will once again build shareholder value.

XCEL ENERGY SULFUR DIOXIDE *and*
NITROGEN OXIDE EMISSION RATES
in pounds per megawatt-hour

Shareholder value depends on Xcel Energy’s ability to operate its core businesses in an environmentally responsible manner. As this chart indicates, the company is steadily reducing sulfur dioxide and nitrogen oxide emissions from its power plants. The significant reductions estimated for 2003 reflect the implementation in 2002 of the Denver metro emissions reduction project.



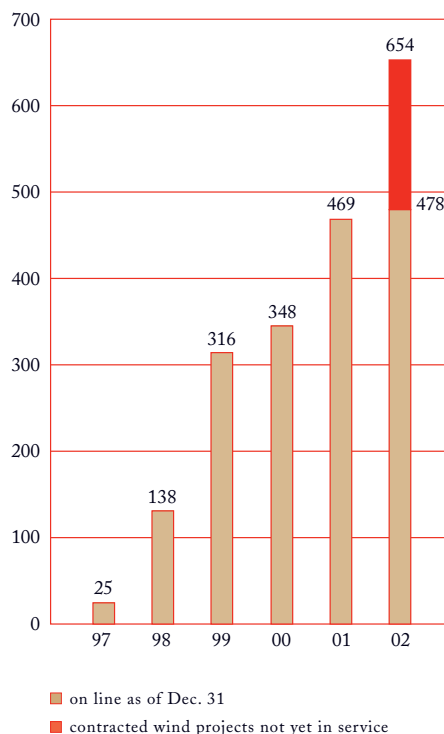


RAY WETZBARGER IS AN XCEL ENERGY SERVICE FITTER
APPRENTICE IN GRAND JUNCTION, COLO.

protecting the environment

As an energy provider, Xcel Energy maintains a delicate balance between meeting customer needs and protecting the environment. The company's environmental commitment has many components, including major efforts in Colorado and Minnesota to reduce power plant emissions, and an impressive renewable energy portfolio. With almost 480 megawatts of wind power, Xcel Energy is among the leading providers of wind energy in the nation. In 2002, the company was recognized nationally for its mercury emissions research and signed a precedent-setting agreement with the U.S. Fish and Wildlife Service to expand efforts to reduce bird injuries and deaths from power lines. Xcel Energy also finances a wide variety of renewable energy research.

XCEL ENERGY
WIND GENERATION
in megawatts





RAMONA WILSON MANAGES XCEL ENERGY'S SUPPLIER DIVERSITY EFFORT, WHICH INCLUDES STRATEGIC PARTNERS SUCH AS COPELAND TRUCKING IN MINNEAPOLIS, MINN. IN 2002, WILSON AND XCEL ENERGY WERE RECOGNIZED FOR THEIR SUPPORT OF WOMEN- AND MINORITY-OWNED BUSINESSES.

caring for customers and the community

Xcel Energy's success is reflected in the satisfaction of its customers and the health of its communities. In addition to a major, long-term effort to help customers conserve energy and save money, Xcel Energy makes significant investments in programs that improve reliability. The company also communicates frequently and proactively with customers about a variety of issues, and works hard to ensure that all problems are resolved. Xcel Energy wants every customer interaction to be satisfying, whether it's over the telephone with a customer care representative, electronically through the company's Web site or in person with an Xcel Energy employee.

The company is equally committed to supporting the communities in its service territory. Besides benefiting from a thriving employee and retiree volunteerism effort, communities received almost \$7.6 million in funding to charitable activities through the Xcel Energy Foundation. As part of that funding, the company makes donations for each hour employees volunteer at qualifying nonprofit organizations and matches employee and retiree contributions to charitable organizations and higher education. Xcel Energy employees and retirees personally support organizations such as the United Way, pledging more than \$1.5 million to local agencies in 2002.